



HEALTH ANNUAL STATEMENT

FOR THE YEAR ENDING DECEMBER 31, 2003
of the Condition and Affairs of the

BLUE CROSS BLUE SHIELD OF MICHIGAN

NAIC Group Code..... 0000 , 0000 (Current Period) (Prior Period)	NAIC Company Code..... 54291	Employer's ID Number..... 38-2069753
Organized under the Laws of Michigan	State of Domicile or Port of Entry Michigan	Country of Domicile US
Licensed as Business Type Hospital, Medical & Dental Service or Indemnity		
Is HMO Federally Qualified? N/A		
Date Incorporated or Organized..... February 1, 1975		Date Commenced Business..... January 1, 1975
Statutory Home Office	600 Lafayette East Detroit MI 48226 (Street and Number) (City or Town, State and Zip Code)	
Main Administrative Office	600 Lafayette East Detroit MI 48226 (Street and Number) (City or Town, State and Zip Code)	313-225-9000 (Area Code) (Telephone Number)
Mail Address	600 Lafayette East Detroit MI 48226 (Street and Number or P. O. Box) (City or Town, State and Zip Code)	
Primary Location of Books and Records	600 Lafayette East Detroit MI 48226 (Street and Number) (City or Town, State and Zip Code)	313-225-9000 (Area Code) (Telephone Number)
Internet Website Address	http://bcbsm.com/	
Statutory Statement Contact	Kenneth A. Bluhm (Name) kbluhm@bcbsm.com (E-Mail Address)	313-225-9095 (Area Code) (Telephone Number) (Extension) 313-983-2358 (Fax Number)
Policyowner Relations Contact	600 Lafayette East Detroit MI 48226 (Street and Number) (City or Town, State and Zip Code)	313-225-9000 (Area Code) (Telephone Number) (Extension)

OFFICERS

President RICHARD E. WHITMER	Treasurer CAROLYNN WALTON	Secretary LISA S. DEMOSS
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VICE PRESIDENTS

J. PAUL AUSTIN	MARK R. BARTLETT	RICHARD T. COLE	LISA S. DEMOSS
JAMES C. EPOLITO	GEORGE F. FRANCIS III	DANIEL J. LOEPP	KEVIN L. SEITZ
WILLIAM P. SMITH	MARIANNE UDOW	LESLIE A. VIEGAS	

DIRECTORS OR TRUSTEES

JAMES G. AGEE	JON E. BARFIELD	WILLIAM H. BLACK	ARLENE R. BRENNAN RN
RUBEN BURKS	GERSON I. COOPER	JOHN W. COPELAND	PATRICK J. DEVLIN
MARK T. GAFFNEY	CHARLES M. GAYNEY	THOMAS J. HADRYCH	LILA R. JOHNSON
SPENCER C. JOHNSON	JOANNE LAFLECHE-GALLAGHER	JOHN M. MACKEIGAN MD	A. BARRY MCGUIRE
GARY J. MCINERNEY	ROBERT A. PATZER	GEORGE J. PERLES	CALVIN T. RAPSON
JAMES W. RICHARDS, RPH	IRIS K. SALTERS	KRISHNA K. SAWHNEY, MD	KATHLEEN B. SHAPIRO
RICHARD SHOEMAKER	DONALD E. STROUD, DDS	GREGORY A. SUDDERTH	S. MARTIN TAYLOR
STEPHEN H. TERRY	JOHN VANDER MOLEN	RICHARD E. WHITMER	L.L. "WOODY" WILLIAMS
SHARON A. WISE	LEWIN WYATT JR., DO		

State of..... Michigan
County of..... Wayne

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively.

Signature RICHARD E. WHITMER (Printed Name)	Signature LISA S. DEMOSS (Printed Name)	Signature CAROLYNN WALTON (Printed Name)
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Subscribed and sworn to before me this

.....day of, 2004
.....

- a. Is this an original filing? Yes [X] No []
- b. If no:
1. State the amendment number
 2. Date filed.....
 3. Number of pages attached.....

BLUE CROSS BLUE SHIELD OF MICHIGAN
ASSETS

	Current Year			Prior Year
	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	Net Admitted Assets
1. Bonds (Schedule D).....	1,881,600,490		1,881,600,490	1,423,564,996
2. Stocks (Schedule D):				
2.1 Preferred stocks.....			.0	
2.2 Common stocks.....	800,433,976		800,433,976	648,276,039
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens.....			.0	
3.2 Other than first liens.....			.0	
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$.....0 encumbrances).....	194,914,444		194,914,444	206,823,417
4.2 Properties held for the production of income (less \$.....0 encumbrances).....			.0	
4.3 Properties held for sale (less \$.....0 encumbrances).....			.0	
5. Cash (\$.....(157,495,484), Sch. E-Part 1), cash equivalents (\$.....0, Sch. E-Part 2) and short-term investments (\$.....342,090,285 Sch. DA).....	184,594,801		184,594,801	155,984,585
6. Contract loans (including \$.....0 premium notes).....			.0	
7. Other invested assets (Schedule BA).....	191,571,086		191,571,086	193,309,511
8. Receivable for securities.....			.0	
9. Aggregate write-ins for invested assets.....	0	0	.0	0
10. Subtotals, cash and invested assets (Lines 1 to 9).....	3,253,114,797	0	3,253,114,797	2,627,958,548
11. Investment income due and accrued.....	14,746,343		14,746,343	11,739,211
12. Premiums and considerations:				
12.1 Uncollected premiums and agents' balances in course of collection.....	15,138,964		15,138,964	10,614,651
12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums).....			.0	
12.3 Accrued retrospective premiums.....			.0	
13. Reinsurance:				
13.1 Amounts recoverable from reinsurers.....			.0	
13.2 Funds held by or deposited with reinsured companies.....			.0	
13.3 Other amounts receivable under reinsurance contracts.....			.0	
14. Amounts receivable relating to uninsured plans.....	13,602,992		13,602,992	69,618,762
15.1 Current federal and foreign income tax recoverable and interest thereon.....			.0	
15.2 Net deferred tax asset.....	23,450,593		23,450,593	1,875,278
16. Guaranty funds receivable or on deposit.....			.0	
17. Electronic data processing equipment and software.....	51,262,963		51,262,963	178,545,257
18. Furniture and equipment, including health care delivery assets (\$.....0).....	9,474,926		9,474,926	10,128,937
19. Net adjustment in assets and liabilities due to foreign exchange rates.....			.0	
20. Receivable from parent, subsidiaries and affiliates.....	25,610,717		25,610,717	28,660,458
21. Health care (\$.....0) and other amounts receivable.....	78,008,073		78,008,073	31,807,212
22. Other assets nonadmitted.....			.0	
23. Aggregate write-ins for other than invested assets.....	771,933,907	0	771,933,907	852,633,187
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 through 23).....	4,256,344,275	0	4,256,344,275	3,823,581,501
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			.0	
26. TOTALS (Lines 24 and 25).....	4,256,344,275	0	4,256,344,275	3,823,581,501

DETAILS OF WRITE-INS				
0901. ....			.0	
0902. ....			.0	
0903. ....			.0	
0998. Summary of remaining write-ins for Line 9 from overflow page.....	0	0	.0	0
0999. Totals (Lines 0901 thru 0903 plus 0999) (Line 9 above).....	0	0	.0	0
2301. Miscellaneous Accounts Receivable.....	35,983,264		35,983,264	27,666,798
2302. Securities Lending Collateral Receivable.....	390,298,779		390,298,779	354,886,543
2303. Prepaid and Other Assets.....	3,273,753		3,273,753	3,506,769
2398. Summary of remaining write-ins for Line 23 from overflow page.....	342,378,111	0	342,378,111	466,573,077
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	771,933,907	0	771,933,907	852,633,187

BLUE CROSS BLUE SHIELD OF MICHIGAN
LIABILITIES, CAPITAL AND SURPLUS

	Current Period			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$.....0 reinsurance ceded).....	576,481,245		576,481,245	567,360,979
2. Accrued medical incentive pool and bonus amounts.....			0	
3. Unpaid claims adjustment expenses.....	55,467,674		55,467,674	59,284,733
4. Aggregate health policy reserves.....	475,739,600		475,739,600	397,955,771
5. Aggregate life policy reserves.....			0	
6. Property/casualty unearned premium reserve.....			0	
7. Aggregate health claim reserves.....			0	
8. Premiums received in advance.....			0	
9. General expenses due or accrued.....	113,184,303		113,184,303	109,406,519
10.1 Current federal and foreign income tax payable and interest thereon (including \$.....0 on realized gains (losses)).....	33,652,739		33,652,739	23,054,085
10.2 Net deferred tax liability.....			0	
11. Ceded reinsurance premiums payable.....			0	
12. Amounts withheld or retained for the account of others.....	5,506,735		5,506,735	3,639,520
13. Remittances and items not allocated.....			0	
14. Borrowed money (including \$.....0 current) and interest thereon \$.....0 (including \$.....0 current).....			0	
15. Amounts due to parent, subsidiaries and affiliates.....	8,618,964		8,618,964	8,710,032
16. Payable for securities.....			0	
17. Funds held under reinsurance treaties with (\$.....0 authorized reinsurers and \$.....0 unauthorized reinsurers).....			0	
18. Reinsurance in unauthorized companies.....			0	
19. Net adjustments in assets and liabilities due to foreign exchange rates.....			0	
20. Liability for amounts held under uninsured accident and health plans.....	136,344,660		136,344,660	120,241,287
21. Aggregate write-ins for other liabilities (including \$.....0 current).....	953,225,076	0	953,225,076	1,001,578,893
22. Total liabilities (Lines 1 to 21).....	2,358,220,996	0	2,358,220,996	2,291,231,819
23. Common capital stock.....	XXX	XXX		
24. Preferred capital stock.....	XXX	XXX		
25. Gross paid in and contributed surplus.....	XXX	XXX		
26. Surplus notes.....	XXX	XXX		
27. Aggregate write-ins for other than special surplus funds.....	XXX	XXX	391,375,006	289,534,618
28. Unassigned funds (surplus).....	XXX	XXX	1,506,748,273	1,242,815,064
29. Less treasury stock at cost:				
29.1 .....0.000 shares common (value included in Line 23 \$.....0).....	XXX	XXX		
29.2 .....0.000 shares preferred (value included in Line 24 \$.....0).....	XXX	XXX		
30. Total capital and surplus (Lines 23 to 28 minus Line 29).....	XXX	XXX	1,898,123,279	1,532,349,682
31. Total liabilities, capital and surplus (Lines 22 and 30).....	XXX	XXX	4,256,344,275	3,823,581,501

DETAILS OF WRITE-INS

2101. Postretirement Liabilities.....	314,060,732		314,060,732	278,783,913
2102. Securities Lending Collateral Payable.....	390,298,779		390,298,779	354,886,543
2103. Liability for Uncashed Checks.....	12,708,651		12,708,651	13,757,308
2198. Summary of remaining write-ins for Line 21 from overflow page.....	236,156,914	0	236,156,914	354,151,129
2199. Totals (Lines 2101 thru 2103 plus 2198) (Line 21 above).....	953,225,076	0	953,225,076	1,001,578,893
2701. Managed Care Division Accumulated Funds.....	XXX	XXX	152,393,126	83,983,738
2702. Accident Fund Insurance Company of America Accumulated Funds.....	XXX	XXX	238,245,880	205,271,880
2703. DenteMax Accumulated Funds.....	XXX	XXX	726,000	279,000
2798. Summary of remaining write-ins for Line 27 from overflow page.....	XXX	XXX	10,000	0
2799. Totals (Lines 2701 thru 2703 plus 2798) (Line 27 above).....	XXX	XXX	391,375,006	289,534,618

BLUE CROSS BLUE SHIELD OF MICHIGAN
STATEMENT OF REVENUE AND EXPENSES

	Current Year		Prior Year
	1 Uncovered	2 Total	3 Total
1. Member months.....	.XXX.	35,468,309	32,511,278
2. Net premium income (including \$.0 non-health premium income).....	.XXX.	5,597,458,033	5,384,723,476
3. Change in unearned premium reserves and reserve for rate credits.....	.XXX.	(42,783,829)	(97,382,038)
4. Fee-for-service (net of \$.0 medical expenses).....	.XXX.		
5. Risk revenue.....	.XXX.		
6. Aggregate write-ins for other health care related revenues.....	.XXX.	0	0
7. Aggregate write-ins for other non-health revenues.....	.XXX.	0	0
8. Total revenues (Lines 2 to 7).....	.XXX.	5,554,674,204	5,287,341,438
Hospital and Medical:			
9. Hospital/medical benefits.....		3,764,684,841	3,562,330,363
10. Other professional services.....		99,414,102	109,217,996
11. Outside referrals.....			
12. Emergency room and out-of-area.....			
13. Prescription drugs.....		919,957,807	923,108,607
14. Aggregate write-ins for other hospital and medical.....0		0	0
15. Incentive pool, withhold adjustments and bonus amounts.....			8,475,739
16. Subtotal (Lines 9 to 15).....0		4,784,056,750	4,603,132,705
Less:			
17. Net reinsurance recoveries.....			
18. Total hospital and medical (Lines 16 minus 17).....0		4,784,056,750	4,603,132,705
19. Non-health claims.....			
20. Claims adjustment expenses.....		140,978,497	143,276,612
21. General administrative expenses.....		362,475,685	455,198,242
22. Increase in reserves for life and accident and health contracts including \$.0 increase in reserves for life only).....		35,000,000	
23. Total underwriting deductions (Lines 18 through 22).....0		5,322,510,932	5,201,607,559
24. Net underwriting gain or (loss) (Lines 8 minus 23).....XXX.		232,163,272	85,733,879
25. Net investment income earned.....		75,585,381	75,794,207
26. Net realized capital gains or (losses).....		16,279,826	9,427,949
27. Net investment gains or (losses) (Lines 25 plus 26).....0		91,865,207	85,222,156
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$.0) (amount charged off \$.0)].....			
29. Aggregate write-ins for other income or expenses.....0		118,792,295	37,774,108
30. Net income or (loss) before federal income taxes (Lines 24 plus 27 plus 28 plus 29).....XXX.		442,820,774	208,730,143
31. Federal and foreign income taxes incurred.....XXX.		68,323,380	47,347,247
32. Net income (loss) (Lines 30 minus 31).....XXX.		374,497,394	161,382,896

DETAILS OF WRITE-INS			
0601. ....	.XXX.		
0602. ....	.XXX.		
0603. ....	.XXX.		
0698. Summary of remaining write-ins for Line 6 from overflow page.....	.XXX.	0	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above).....	.XXX.	0	0
0701. ....	.XXX.		
0702. ....	.XXX.		
0703. ....	.XXX.		
0798. Summary of remaining write-ins for Line 7 from overflow page.....	.XXX.	0	0
0799. Totals (Lines 0701 thru 0703 plus 0798) (Line 7 above).....	.XXX.	0	0
1401.			
1402.			
1403.			
1498. Summary of remaining write-ins for Line 14 from overflow page.....	0	0	0
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above).....	0	0	0
2901. Miscellaneous Income.....		19,887,295	(5,070,892)
2902. Gain from Managed Care Division.....		71,401,000	17,239,000
2903. Gain from Accident Fund Insurance Company of America.....		27,057,000	25,327,000
2998. Summary of remaining write-ins for Line 29 from overflow page.....	0	447,000	279,000
2999. Totals (Lines 2901 thru 2903 plus 2998) (Line 29 above).....	0	118,792,295	37,774,108

BLUE CROSS BLUE SHIELD OF MICHIGAN
STATEMENT OF REVENUE AND EXPENSES (Continued)

CAPITAL AND SURPLUS ACCOUNT	1 Current Year	2 Prior Year
33. Capital and surplus prior reporting period.....	1,532,349,682	1,300,569,000
GAINS AND LOSSES TO CAPITAL & SURPLUS		
34. Net income or (loss) from Line 32.....	374,497,394	161,382,896
35. Change in valuation basis of aggregate policy and claim reserves.....		
36. Net unrealized capital gains and losses.....	(8,723,796)	70,397,785
37. Change in net unrealized foreign exchange capital gain or (loss).....		
38. Change in net deferred income tax.....		
39. Change in nonadmitted assets.....		
40. Change in unauthorized reinsurance.....		
41. Change in treasury stock.....		
42. Change in surplus notes.....		
43. Cumulative effect of changes in accounting principles.....		
44. Capital changes:		
44.1 Paid in.....		
44.2 Transferred from surplus (Stock Dividend).....		
44.3 Transferred to surplus.....		
45. Surplus adjustments:		
45.1 Paid in.....		
45.2 Transferred to capital (Stock Dividend).....		
45.3 Transferred from capital.....		
46. Dividends to stockholders.....		
47. Aggregate write-ins for gains or (losses) in surplus.....	0	0
48. Net change in capital and surplus (Lines 34 to 47).....	365,773,598	231,780,681
49. Capital and surplus end of reporting period (Line 33 plus 48).....	1,898,123,279	1,532,349,682

DETAILS OF WRITE-INS		
4701.		
4702.		
4703.		
4798. Summary of remaining write-ins for Line 47 from overflow page.....	0	0
4799. Totals (Lines 4701 thru 4703 plus 4798) (Line 47 above).....	0	0

BLUE CROSS BLUE SHIELD OF MICHIGAN
CASH FLOW

	1 Current Year	2 Prior Year
CASH FROM OPERATIONS		
1. Premiums collected net of reinsurance.....	5,704,356,546	5,507,377,507
2. Net investment income.....	89,757,402	91,386,123
3. Miscellaneous income.....	108,869,223	(30,116,610)
4. Total (Lines 1 through 3).....	5,902,983,171	5,568,647,020
5. Benefit and loss related payments.....	4,868,988,343	4,482,691,073
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts.....		
7. Commissions, expenses paid and aggregate write-ins for deductions.....	447,477,685	519,057,644
8. Dividends paid to policyholders.....		
9. Federal and foreign income taxes paid (recovered) \$.....0 net tax on capital gains (losses).....	79,300,041	24,612,757
10. Total (Lines 5 through 9).....	5,395,766,069	5,026,361,474
11. Net cash from operations (Line 4 minus Line 10).....	507,217,102	542,285,546
CASH FROM INVESTMENTS		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds.....	3,535,977,307	1,799,717,973
12.2 Stocks.....	47,614,407	25,280,571
12.3 Mortgage loans.....		
12.4 Real estate.....	4,176,594	84,325
12.5 Other invested assets.....	4,324,894	2,403,575
12.6 Net gains or (losses) on cash and short-term investments.....		
12.7 Miscellaneous proceeds.....		
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	3,592,093,202	1,827,486,444
13. Cost of investments acquired (long-term only):		
13.1 Bonds.....	4,018,295,735	2,056,788,015
13.2 Stocks.....	155,961,376	80,176,887
13.3 Mortgage loans.....		
13.4 Real estate.....	5,027,257	6,896,675
13.5 Other invested assets.....	5,913,537	5,566,951
13.6 Miscellaneous applications.....		
13.7 Total investments acquired (Lines 13.1 to 13.6).....	4,185,197,905	2,149,428,528
14. Net increase (decrease) in policy loans and premium notes.....		
15. Net cash from investments (Line 12.8 minus Lines 13.7 and 14).....	(593,104,703)	(321,942,084)
CASH FROM FINANCING AND MISCELLANEOUS SOURCES		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes.....		
16.2 Capital and paid in surplus, less treasury stock.....		
16.3 Borrowed funds received.....	151,515,000	
16.4 Net deposits on deposit-type contracts and other insurance liabilities.....		
16.5 Dividends to stockholders.....		
16.6 Other cash provided (applied).....	(37,017,183)	(79,509,412)
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6).....	114,497,817	(79,509,412)
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS		
18. Net change in cash and short-term investments (Line 11 plus Line 15 plus Line 17).....	28,610,216	140,834,050
19. Cash and short-term investments:		
19.1 Beginning of year.....	155,984,585	15,150,535
19.2 End of year (Line 18 plus Line 19.1).....	184,594,801	155,984,585

ANALYSIS OF OPERATION BY LINES OF BUSINESS (Gain and Loss Exhibit)

		1	2	3	4	5	6	7	8	9	10	11	12	13
		Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plans	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other Health	Other Non-Health
1.	Net premium income.....	5,597,458,033	4,995,606,589	203,895,476	101,510,841	18,863,243	194,125,859			83,456,025				
2.	Change in unearned premium reserves and reserve for rate credit.....	(42,783,829)	(39,990,958)	(1,731,114)	(899,329)	(162,428)								
3.	Fee-for-service (net of \$.....0 medical expenses).....	0												XXX
4.	Risk revenue.....	0												XXX
5.	Aggregate write-ins for other health care related revenues.....	0	0	0	0	0	0	0	0	0	0	0	0	XXX
6.	Aggregate write-ins for other non-health care related revenues.....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
7.	Total revenues (Lines 1 to 6).....	5,554,674,204	4,955,615,631	202,164,362	100,611,512	18,700,815	194,125,859	0	0	83,456,025	0	0	0	0
8.	Hospital/medical benefits.....	3,764,684,841	3,293,100,877	289,001,790			129,756,516			52,825,658				XXX
9.	Other professional services.....	99,414,102			85,164,572	14,249,530								XXX
10.	Outside referrals.....	0												XXX
11.	Emergency room and out-of-area.....	0												XXX
12.	Prescription drugs.....	919,957,807	871,962,227				47,995,580							XXX
13.	Aggregate write-ins for other hospital and medical.....	0	0	0	0	0	0	0	0	0	0	0	0	XXX
14.	Incentive pool, withhold adjustments and bonus amounts.....	0												XXX
15.	Subtotal (Lines 8 to 14).....	4,784,056,750	4,165,063,104	289,001,790	85,164,572	14,249,530	177,752,096	0	0	52,825,658	0	0	0	XXX
16.	Net reinsurance recoveries.....	0												XXX
17.	Total hospital and medical (Lines 15 minus 16).....	4,784,056,750	4,165,063,104	289,001,790	85,164,572	14,249,530	177,752,096	0	0	52,825,658	0	0	0	XXX
18.	Non-health claims (net).....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
19.	Claims adjustment expenses.....	140,978,497	122,438,575	7,972,425	2,550,804	1,275,402	5,465,889			1,275,402				
20.	General administrative expenses.....	362,475,685	314,638,079	20,602,575	6,554,960	3,277,480	14,125,111			3,277,480				
21.	Increase in reserves for accident and health contracts.....	35,000,000	31,850,000		2,450,000	700,000								XXX
22.	Increase in reserve for life contracts.....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
23.	Total underwriting deductions (Lines 17 to 22).....	5,322,510,932	4,633,989,758	317,576,790	96,720,336	19,502,412	197,343,096	0	0	57,378,540	0	0	0	0
24.	Net underwriting gain or (loss) (Line 7 minus Line 23).....	232,163,272	321,625,873	(115,412,428)	3,891,176	(801,597)	(3,217,237)	0	0	26,077,485	0	0	0	0

DETAILS OF WRITE-INS

[illegible]

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - CLAIMS INCURRED DURING THE YEAR

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other Health	Other Non-Health
1. Payments during the year:													
1.1 Direct.....	4,774,936,484	4,174,796,351	288,113,349	82,997,532	14,285,243	164,157,804			50,586,205				
1.2 Reinsurance assumed.....	0												
1.3 Reinsurance ceded.....	0												
1.4 Net.....	4,774,936,484	4,174,796,351	288,113,349	82,997,532	14,285,243	164,157,804	0	0	50,586,205	0	0	0	0
2. Paid medical incentive pools and bonuses.....	0												
3. Claim liability December 31, current year from Part 2A:													
3.1 Direct.....	576,481,245	455,312,764	54,769,759	7,837,088	1,148,107	35,735,050			21,678,477				
3.2 Reinsurance assumed.....	0												
3.3 Reinsurance ceded.....	0												
3.4 Net.....	576,481,245	455,312,764	54,769,759	7,837,088	1,148,107	35,735,050	0	0	21,678,477	0	0	0	0
4. Claim reserve December 31, current year from Part 2D:													
4.1 Direct.....	0												
4.2 Reinsurance assumed.....	0												
4.3 Reinsurance ceded.....	0												
4.4 Net.....	0	0	0	0	0	0	0	0	0	0	0	0	0
5. Accrued medical incentive pools and bonuses, current year.....	0												
6. Amounts recoverable from reinsurers December 31, current year.....	0												
7. Claim liability December 31, prior year from Part 2A:													
7.1 Direct.....	567,360,979	465,046,011	53,881,318	5,670,047	1,183,820	22,140,759			19,439,024				
7.2 Reinsurance assumed.....	0												
7.3 Reinsurance ceded.....	0												
7.4 Net.....	567,360,979	465,046,011	53,881,318	5,670,047	1,183,820	22,140,759	0	0	19,439,024	0	0	0	0
8. Claim reserve December 31, prior year from Part 2D:													
8.1 Direct.....	0												
8.2 Reinsurance assumed.....	0												
8.3 Reinsurance ceded.....	0												
8.4 Net.....	0	0	0	0	0	0	0	0	0	0	0	0	0
9. Accrued medical incentive pools and bonuses, prior year.....	0												
10. Amounts recoverable from reinsurers December 31, prior year.....	0												
11. Incurred benefits:													
11.1 Direct.....	4,784,056,750	4,165,063,104	289,001,790	85,164,573	14,249,530	177,752,095	0	0	52,825,658	0	0	0	0
11.2 Reinsurance assumed.....	0	0	0	0	0	0	0	0	0	0	0	0	0
11.3 Reinsurance ceded.....	0	0	0	0	0	0	0	0	0	0	0	0	0
11.4 Net.....	4,784,056,750	4,165,063,104	289,001,790	85,164,573	14,249,530	177,752,095	0	0	52,825,658	0	0	0	0
12. Incurred medical incentive pools and bonuses.....	0	0	0	0	0	0	0	0	0	0	0	0	0

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2A - CLAIMS LIABILITY END OF CURRENT YEAR

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Comprehensive (Medical and Hospital)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other Health	Other Non-Health
1. Reported in process of adjustment:													
1.1 Direct.....	0												
1.2 Reinsurance assumed.....	0												
1.3 Reinsurance ceded.....	0												
1.4 Net.....	0	0	0	0	0	0	0	0	0	0	0	0	0
2. Incurred but unreported:													
2.1 Direct.....	576,481,245	455,312,764	54,769,759	7,837,088	1,148,107	35,735,050			21,678,477				
2.2 Reinsurance assumed.....	0												
2.3 Reinsurance ceded.....	0												
2.4 Net.....	576,481,245	455,312,764	54,769,759	7,837,088	1,148,107	35,735,050	0	0	21,678,477	0	0	0	0
3. Amounts withheld from paid claims and capitations:													
3.1 Direct.....	0												
3.2 Reinsurance assumed.....	0												
3.3 Reinsurance ceded.....	0												
3.4 Net.....	0	0	0	0	0	0	0	0	0	0	0	0	0
4. Totals:													
4.1 Direct.....	576,481,245	455,312,764	54,769,759	7,837,088	1,148,107	35,735,050	0	0	21,678,477	0	0	0	0
4.2 Reinsurance assumed.....	0	0	0	0	0	0	0	0	0	0	0	0	0
4.3 Reinsurance ceded.....	0	0	0	0	0	0	0	0	0	0	0	0	0
4.4 Net.....	576,481,245	455,312,764	54,769,759	7,837,088	1,148,107	35,735,050	0	0	21,678,477	0	0	0	0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2B - ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE

Line of Business	Claims Paid During the Year		Claim Reserve and Claim Liability December 31 of Current Year		5	6
	1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred During the Year	3 On Claims Unpaid December 31 of Prior Year	4 On Claims Incurred During the Year	Claims Incurred in Prior Years (Columns 1 + 3)	Estimated Claim Reserve and Claim Liability December 31 of Prior Year
1. Comprehensive (hospital and medical).....	408,013,980	3,766,782,371	24,485,477	430,827,287	432,499,457	465,046,011
2. Medicare supplement.....	42,286,074	245,827,275	1,600,383	53,169,376	43,886,457	53,881,318
3. Dental only.....	5,666,089	77,331,443	70,062	7,767,026	5,736,151	5,670,047
4. Vision only.....	1,241,333	13,043,910	5,661	1,142,446	1,246,994	1,183,820
5. Federal employees health benefits plan.....	28,534,709	135,623,095	3,164,416	32,570,634	31,699,125	22,140,759
6. Title XVIII - Medicare.....					0	
7. Title XIX - Medicaid.....					0	
8. Other health.....		50,586,205	3,885,730	17,792,747	3,885,730	19,439,024
9. Health subtotal (Lines 1 to 8).....	485,742,185	4,289,194,299	33,211,729	543,269,516	518,953,914	567,360,979
10. Other non-health.....					0	
11. Medical incentive pools, accruals and disbursements.....					0	
12. Totals (Lines 9 to 11).....	485,742,185	4,289,194,299	33,211,729	543,269,516	518,953,914	567,360,979

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

12.FE

Year in Which Losses Were Incurred	CUMulative Net Amounts Paid				
	1 1999	2 2000	3 2001	4 2002	5 2003
1. Prior.....	11,806			(172)	
2. 1999.....	99,688	12,950	570	(70)	33
3. 2000.....	XXX	103,207	15,599	370	88
4. 2001.....	XXX	XXX	117,307	15,084	1,342
5. 2002.....	XXX	XXX	XXX	121,219	27,071
6. 2003.....	XXX	XXX	XXX	XXX	135,623

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year				
	1 1999	2 2000	3 2001	4 2002	5 2003
1. Prior.....	18,313			(172)	
2. 1999.....	113,233	13,637	570	(46)	
3. 2000.....	XXX	123,433	21,716	901	248
4. 2001.....	XXX	XXX	133,701	20,061	3,107
5. 2002.....	XXX	XXX	XXX	137,031	28,344
6. 2003.....	XXX	XXX	XXX	XXX	168,194

[illegible]

**U & I Ex.-Pt.2C-Sn A-Paid Claims-Medicare
NONE**

**U & I Ex.-Pt.2C-Sn B-Incurred Claims-Medicare
NONE**

**U & I Ex.-Pt.2C-Sn C-Expense Ratio-Medicare
NONE**

**U & I Ex.-Pt.2C-Sn A-Paid Claims-Medicaid
NONE**

**U & I Ex.-Pt.2C-Sn B-Incurred Claims-Medicaid
NONE**

**U & I Ex.-Pt.2C-Sn C-Expense Ratio-Medicaid
NONE**

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2D - AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY

	1	2	3	4	5	6	7	8	9	10	11	12
	Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other
POLICY RESERVE												
1. Unearned premium reserves.....	244,818,144	214,401,910	24,057,964	5,424,698	933,572							
2. Additional policy reserves (a).....	35,000,000	34,369,061		630,939								
3. Reserve for future contingent benefits.....	0											
4. Reserve for rate credits or experience rating refunds (including \$.0) for investment income.....	195,921,456	193,318,836		2,059,765	542,855							
5. Aggregate write-ins for other policy reserves.....	0	0	0	0	0	0	0	0	0	0	0	0
6. Totals (gross).....	475,739,600	442,089,807	24,057,964	8,115,402	1,476,427	0	0	0	0	0	0	0
7. Reinsurance ceded.....	0											
8. Totals (net) (Page 3, Line 4).....	475,739,600	442,089,807	24,057,964	8,115,402	1,476,427	0	0	0	0	0	0	0
CLAIM RESERVE												
9. Present value of amounts not yet due on claims.....	0											
10. Reserve for future contingent benefits.....	0											
11. Aggregate write-ins for other claim reserves.....	0	0	0	0	0	0	0	0	0	0	0	0
12. Totals (gross).....	0	0	0	0	0	0	0	0	0	0	0	0
13. Reinsurance ceded.....	0											
14. Totals (net) (Page 3, Line 7).....	0	0	0	0	0	0	0	0	0	0	0	0
DETAILS OF WRITE-INS												
0501.	0											
0502.	0											
0503.	0											
0598. Summary of remaining write-ins for Line 5 from overflow page.....	0	0	0	0	0	0	0	0	0	0	0	0
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above).....	0	0	0	0	0	0	0	0	0	0	0	0
1101.	0											
1102.	0											
1103.	0											
1198. Summary of remaining write-ins for Line 11 from overflow page.....	0	0	0	0	0	0	0	0	0	0	0	0
1199. Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above).....	0	0	0	0	0	0	0	0	0	0	0	0

(a) Includes \$.35,000,000 premium deficiency reserve.

BLUE CROSS BLUE SHIELD OF MICHIGAN
UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - ANALYSIS OF EXPENSES

	1 Claim Adjustment Expenses	2 General Administrative Expenses	3 Investment Expenses	4 Total
1. Rent (\$.....3,051,578 for occupancy of own building).....	.....1,147,393	.....1,904,185	.....	.....3,051,578
2. Salaries, wages and other benefits.....	.....190,001,821	.....315,322,171	.....1,312,987	.....506,636,979
3. Commissions (less \$.....0 ceded plus \$.....0 assumed).....	.....	.....280,492,081	.....	.....280,492,081
4. Legal fees and expenses.....	.....683,031	.....1,133,541	.....	.....1,816,572
5. Certifications and accreditation fees.....	.....	.....	.....	.....0
6. Auditing, actuarial and other consulting services.....	.....7,191,122	.....11,934,202	.....173,460	.....19,298,784
7. Traveling expenses.....	.....4,231,962	.....7,023,256	.....35,236	.....11,290,454
8. Marketing and advertising.....	.....2,791,070	.....4,631,988	.....	.....7,423,058
9. Postage, express and telephone.....	.....10,953,354	.....18,177,906	.....38,076	.....29,169,336
10. Printing and office supplies.....	.....3,333,400	.....5,532,025	.....6,023	.....8,871,448
11. Occupancy, depreciation and amortization.....	.....3,586,118	.....5,951,430	.....109,138	.....9,646,686
12. Equipment.....	.....	.....	.....	.....0
13. Cost or depreciation of EDP equipment and software.....	.....29,384,439	.....48,765,664	.....57,368	.....78,207,471
14. Outsourced services including EDP, claims, and other services.....	.....60,041,127	.....99,642,721	.....100,684	.....159,784,532
15. Boards, bureaus and association fees.....	.....2,540,880	.....4,216,780	.....17,337	.....6,774,997
16. Insurance, except on real estate.....	.....689,598	.....1,144,439	.....1,422	.....1,835,459
17. Collection and bank service charges.....	.....348,293	.....578,019	.....	.....926,312
18. Group service and administration fees.....	.....	.....	.....	.....0
19. Reimbursements by uninsured accident and health plans.....	.....(164,254,225)	.....(424,572,827)	.....	.....(588,827,052)
20. Reimbursements from fiscal intermediaries.....	.....	.....	.....	.....0
21. Real estate expenses.....	.....	.....	.....	.....0
22. Real estate taxes.....	.....	.....	.....	.....0
23. Taxes, licenses and fees:				
23.1 State and local insurance taxes.....	.....	.....	.....	.....0
23.2 State premium taxes.....	.....	.....	.....	.....0
23.3 Regulatory authority licenses and fees.....	.....403,831	.....670,188	.....	.....1,074,019
23.4 Payroll taxes.....	.....11,090,419	.....18,405,376	.....80,800	.....29,576,595
23.5 Other (excluding federal income and real estate taxes).....	.....	.....	.....	.....0
24. Investment expenses not included elsewhere.....	.....(114)	.....(188)	.....302	.....0
25. Aggregate write-ins for expenses.....	.....(23,185,023)	.....(38,477,272)	.....0	.....(61,662,295)
26. Total expenses incurred (Lines 1 to 25).....	.....140,978,496	.....362,475,685	.....1,932,833	(a).....505,387,014
27. Less expenses unpaid December 31, current year.....	.....55,467,674	.....113,184,303	.....	.....168,651,977
28. Add expenses unpaid December 31, prior year.....	.....59,284,733	.....109,406,519	.....	.....168,691,252
29. Amounts receivable relating to uninsured accident and health plans, prior year.....	.....18,657,828	.....50,960,934	.....	.....69,618,762
30. Amounts receivable relating to uninsured accident and health plans, current year.....	.....3,795,235	.....9,807,757	.....	.....13,602,992
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30).....	.....129,932,962	.....317,544,724	.....1,932,833	.....449,410,519

DETAILS OF WRITE-INS

2501. Admin Fee Recovery.....	.....(23,185,023)	.....(38,477,272)	.....	.....(61,662,295)
2502. ....	.....	.....	.....	.....0
2503. ....	.....	.....	.....	.....0
2598. Summary of remaining write-ins for Line 25 from overflow page.....	.....0	.....0	.....0	.....0
2599. TOTALS (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	.....(23,185,023)	.....(38,477,272)	.....0	.....(61,662,295)

(a) Includes management fees of \$.....7,748,004 to affiliates and \$.....19,505,771 to non-affiliates.

BLUE CROSS BLUE SHIELD OF MICHIGAN
EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. government bonds.....	(a).....9,779,315	.....10,007,901
1.1 Bonds exempt from U.S. tax.....	(a).....	.....
1.2 Other bonds (unaffiliated).....	(a).....56,219,186	.....58,866,242
1.3 Bonds of affiliates.....	(a).....	.....
2.1 Preferred stocks (unaffiliated).....	(b).....	.....
2.11 Preferred stocks of affiliates.....	(b).....	.....
2.2 Common stocks (unaffiliated).....	.....992,709	.....968,239
2.21 Common stocks of affiliates.....	.....	.....
3. Mortgage loans.....	(c).....	.....
4. Real estate.....	(d).....	.....
5. Contract loans.....	.....	.....
6. Cash/short-term investments.....	(e).....3,330,984	.....3,475,240
7. Derivative instruments.....	(f).....	.....
8. Other invested assets.....	.....32,668,905	.....15,398,904
9. Aggregate write-ins for investment income.....	.....505,253	.....505,253
10. Total gross investment income.....	.....103,496,352	.....89,221,779
11. Investment expenses.....		(g).....1,932,833
12. Investment taxes, licenses and fees, excluding federal income taxes.....		(g).....
13. Interest expense.....		(h).....
14. Depreciation on real estate and other invested assets.....		(i).....11,703,565
15. Aggregate write-ins for deductions from investment income.....		.....0
16. Total deductions (Lines 11 through 15).....		.....13,636,398
17. Net investment income (Line 10 minus Line 16).....		.....75,585,381

DETAILS OF WRITE-INS		
0901. SECURITY LENDING INCOME.....	.....505,253	.....505,253
0902. ....	.....	.....
0903. ....	.....	.....
0998. Summary of remaining write-ins for Line 9 from overflow page.....	.....0	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.....505,253	.....505,253
1501. ....		.....
1502. ....		.....
1503. ....		.....
1598. Summary of remaining write-ins for Line 15 from overflow page.....		.....0
1599. Totals (Lines 1501 thru 1503 plus 1598) (Line 15 above).....		.....0

- (a) Includes \$.....752,384 accrual of discount less \$.....6,227,973 amortization of premium and less \$.....12,442,907 paid for accrued interest on purchases.
- (b) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued dividends on purchases.
- (c) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued interest on purchases.
- (d) Includes \$.....0 for company's occupancy of its own buildings; and excludes \$.....0 interest on encumbrances.
- (e) Includes \$.....1,688,209 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued interest on purchases.
- (f) Includes \$.....0 accrual of discount less \$.....0 amortization of premium.
- (g) Includes \$.....0 investment expenses and \$.....0 investment taxes, licenses and fees, excluding federal income taxes, attributable to Segregated and Separate Accounts.
- (h) Includes \$.....0 interest on surplus notes and \$.....0 interest on capital notes.
- (i) Includes \$.....11,703,565 depreciation on real estate and \$.....0 depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

	1 Realized Gain (Loss) on Sales or Maturity	2 Other Realized Adjustments	3 Increases (Decreases) by Adjustment	4 Net Gain or (Loss) from Change in Difference Between Basis Book/ Adjusted Carrying and Admitted Values	5 Total
1. U.S. government bonds.....	.....4,044,784	.....	.....	.....	.....4,044,784
1.1 Bonds exempt from U.S. tax.....	.....	.....	.....	.....	.....0
1.2 Other bonds (unaffiliated).....	.....7,371,580	.....	.....	.....	.....7,371,580
1.3 Bonds of affiliates.....	.....	.....	.....	.....	.....0
2.1 Preferred stocks (unaffiliated).....	.....	.....	.....	.....	.....0
2.11 Preferred stocks of affiliates.....	.....	.....	.....	.....	.....0
2.2 Common stocks (unaffiliated).....	.....4,863,462	.....	.....	.....	.....4,863,462
2.21 Common stocks of affiliates.....	.....	.....	.....	.....	.....0
3. Mortgage loans.....	.....	.....	.....	.....	.....0
4. Real estate.....	.....	.....	.....	.....	.....0
5. Contract loans.....	.....	.....	.....	.....	.....0
6. Cash/short-term investments.....	.....	.....	.....	.....	.....0
7. Derivative instruments.....	.....	.....	.....	.....	.....0
8. Other invested assets.....	.....	.....	.....	.....	.....0
9. Aggregate write-ins for capital gains (losses).....	.....0	.....0	.....0	.....0	.....0
10. Total capital gains (losses).....	.....16,279,826	.....0	.....0	.....0	.....16,279,826

DETAILS OF WRITE-INS					
0901. ....	.....	.....	.....	.....	.....0
0902. ....	.....	.....	.....	.....	.....0
0903. ....	.....	.....	.....	.....	.....0
0998. Summary of remaining write-ins for Line 9 from overflow page..	.....0	.....0	.....0	.....0	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.....0	.....0	.....0	.....0	.....0

EXHIBIT 1 - ANALYSIS OF NONADMITTED ASSETS AND RELATED ITEMS

	1	2	3
	End of Current Year	End of Prior Year	Change for Year (Increase) or Decrease
1. Summary of Items, Page 2, Lines 12 to 20, Column 2.....			0
2. Other nonadmitted assets:			
2.1 Bills receivable.....			0
2.2 Leasehold improvements.....			0
2.3 Cash advanced to or in hands of officers and agents.....			0
2.4 Loans on personal security, endorsed or not.....			0
2.5 Commuted commissions.....			0
3. Total (Lines 2.1 to 2.5).....	0	0	0
4. Aggregate write-ins for other than invested assets.....	0	0	0
5. Total (Line 1 plus Lines 3 and 4).....	0	0	0

DETAILS OF WRITE-INS

0401.			0
0402.			0
0403.			0
0498. Summary of remaining write-ins for Line 4 from overflow page.....	0	0	0
0499. Totals (Lines 0401 thru 0403 plus 0498) (Line 4 above).....	0	0	0

NONE

EXHIBIT 2 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

Source of Enrollment	Total Members at End of					6 Current Year Member Months
	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	
1. Health maintenance organizations.....						
2. Provider service organizations.....						
3. Preferred provider organizations.....	1,168,225	1,255,339	1,241,448	1,234,224	1,200,351	16,317,402
4. Point of service.....	103,883	105,474	98,333	94,729	88,150	1,298,315
5. Indemnity only.....	767,647	620,164	610,922	602,210	583,638	7,999,248
6. Aggregate write-ins for other lines of business.....	620,228	790,739	818,138	857,546	826,691	9,853,344
7. Total.....	2,659,983	2,771,716	2,768,841	2,788,709	2,698,830	35,468,309

DETAILS OF WRITE-INS

0601. National Stoploss.....	77,150	210,088	223,863	244,253	214,370	2,673,336
0602. Local Stoploss.....	543,078	580,651	594,275	613,293	612,321	7,180,008
0603.						
0698. Summary of remaining write-ins for Line 6 from overflow page.....	0	0	0	0	0	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above).....	620,228	790,739	818,138	857,546	826,691	9,853,344

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying annual statement of Blue Cross Blue Shield of Michigan (the Company) has been prepared in accordance with Generally Accepted Accounting Principles (GAAP), except for the treatment of the sale-leaseback transaction, which follows the statutory guidance of SSAP 22, *Leases*. The statement is in conformity with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except that it has been prepared in accordance with GAAP, as prescribed for the Company by P.A. 350 of 1980. The Company has followed guidelines of SSAP 47 related to ASC business reporting in order to comply with the request of the Michigan Office of Financial and Insurance Services.

Cash Equivalents carried at cost, which approximates fair market value, are comprised of short-term investments with initial maturities at date of acquisition of 90 days or less.

Investments - Pursuant to Statement of Financial Accounting Standards ("SFAS") No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, the Company has classified its debt securities as available-for-sale; accordingly, its debt and equity securities are carried at fair value. The unrealized gains and losses related to these securities are excluded from earnings and reported as a component of capital and surplus, net of related deferred income taxes. Realized gains and losses on sales of securities are determined based on the specific identification method and are included in investment and other income. Declines in value judged to be other than temporary are included in investment and other income.

The estimated fair values have been determined by the Company and its investment managers using available market information and appropriate valuation methodologies. These estimates are subjective in nature and involve uncertainties and matters of considerable judgment. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different assumptions, judgments and/or estimation methodologies may have a material effect on the estimated fair values.

Derivative Instruments and Hedging Activities – SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities*, requires companies to record derivatives on the balance sheet as assets or liabilities at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedging accounting. The Company has determined that the adoption of this standard does not have a material impact on the consolidated financial position or results of operations.

Securities Lending - The Company enters into secured lending transactions and recognizes the collateral received and the corresponding liability to return the collateral in accordance with the provisions of SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, which provides standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings.

Property and Equipment is stated at cost and is depreciated by the straight-line method over estimated useful lives ranging from thirty to forty years for buildings and five to ten years for equipment.

Software Costs - Costs related to acquired and developed computer software for internal use are capitalized as incurred. Capitalized costs are amortized using the straight-line method generally over a five to seven-year useful life.

Long-Lived Assets held and used by the Company are reviewed based on market factors and operational considerations for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Investments in Subsidiaries are reported on the net worth basis. All subsidiaries listed in Schedule D and BA are 100% owned by the Company.

Liability for Unpaid Claims and Claim Adjustment Expenses is an actuarial estimate of outstanding claims, primarily consisting of claims incurred but not reported. This estimate is based upon historical claims experience modified for current trends and changes in benefit coverage, which could vary as the claims are ultimately settled. Processing expense related to claims is accrued based on an estimate of expenses to process such claims. Revisions in actuarial estimates are reported in the period in which they arise.

Experience Rated Groups – A liability is established for experience rated group contracts as a result of favorable experience based on an actuarial estimate of underwriting gains which will be returned to groups, either as cash refunds or future rate reductions. Under terms of most of the experience rated group contracts, recovery, if any, of underwriting losses through future rate increases is not recognized until received. The off-balance sheet receivables arising from underwriting losses for experience rated groups are \$103,839,242 and \$125,904,447 as of December 31, 2003 and 2002, respectively.

Area Rated Groups - The area rated group line of business is considered a regulated business under accounting principles generally accepted in the United States of America ("GAAP") in that the Company's rating formula for area rated groups is subject to regulation by the Office of Financial and Insurance Services ("OFIS"). The difference between costs and revenues for area rated groups are therefore considered regulatory assets or liabilities because they are, over time, either returned to the groups or collected from them via future rate adjustments. A regulatory asset is carried on the balance

NOTES TO FINANCIAL STATEMENTS

sheet to the extent the Company considers it probable that the rating formula for future years will be sufficient to recover the asset.

Premium Deficiency Reserve - A liability for premium deficiency losses are recognized when it is probable that expected claim losses and allocable administrative expenses will exceed future premiums on existing health and other contracts without consideration of investment income. For purposes of premium deficiency losses, contracts are grouped in a manner consistent with the Company’s method of acquiring, servicing and measuring the profitability of such contracts. Once established, premium deficiency losses are amortized over the remaining life of the contract. In 2003 a \$38.0 million premium deficiency reserve was established for the anticipated loss on the state sponsored MICHild insurance program, which provides health and dental insurance for uninsured children of Michigan’s working families. The MICHild premium deficiency reserve will be amortized over a two-year contract period ending September 30, 2005. At December 31, 2003 remaining premium deficiency reserve is \$35.0 million.

Premium and Fee Revenues - Premiums, which generally are billed in advance, are recognized as revenue during the respective periods of coverage. Premiums applicable to the unexpired portion of coverage are reflected in the accompanying consolidated balance sheet as unearned revenue.

Fee revenue primarily consists of administrative fees for services provided under administrative service contracts (ASC), including management of medical services, claims processing and access to provider networks. Under ASC arrangements, self-funded groups retain the full risk of paying claims. Amounts due from ASC groups are equal to the amounts required to pay claims and pay administrative fees. Administrative fees are earned as services are performed and are calculated based on the number of members in a group or the group’s claim experience. Since benefit expenses for ASC arrangements are not the responsibility of the Company, claims paid and the corresponding reimbursements are excluded in the consolidated financial statements. Administrative fee revenue and the corresponding expenses related to ASC arrangements are included in operating expenses.

Employee Benefit Plans - The Company has defined benefit retirement income plans covering substantially all employees 21 years or older having one year or more of continuous service. The Company’s policy is to fund accrued retirement costs, as determined by consulting actuaries, to the extent permitted by Internal Revenue Service regulations.

The Company has defined benefit health care and other benefit plans covering substantially all employees and their dependents who retire from active employment and meet minimum age and service requirements. These plans are funded on a pay-as-you-go basis.

The Company has defined contribution plans, which are qualified under Section 401(k) of the Internal Revenue Code, covering all employees who elect to participate. The Company matches a certain percentage of employees’ contributions.

Blue Cross Blue Shield Association ("BCBSA") Deposit - As part of its BCBSA license requirements, the Company is required to maintain a custodial bank account to assure the payment of claims in the event of the Company’s insolvency. The account balance is calculated as a percentage of the Company’s unpaid claim liability and consists primarily of marketable securities. The funds in the account are included in the Company’s investment portfolio. The Company has the ability to trade and transfer securities within the account as long as balance in the account is at or above the required minimum. The required balance for the period April 1, 2003 through March 31, 2004 is \$127.1 million. At December 31, 2003, the balance in this custodial account is \$137.2 million.

2. STATUTORY ACCOUNTING INFORMATION

With the passage of Act 59, the Company is required to prepare statutory financial statements in accordance with the statutory accounting practices ("SAP") prescribed or permitted by OFIS. Prior to the enactment of the new law, the Company was required to prepare its statutory statements in accordance with GAAP and as such, subscriber reserves and unassigned funds for 2002 and 2001 do not differ from the subscribers’ reserves and unassigned funds as reported in the Company’s GAAP audited financial statements.

As permitted under the new law, the Company and OFIS have agreed to a three-year transition plan that will allow the Company to switch from GAAP to SAP in a non-disruptive manner. Implementation of the transition plan will begin with the first quarter 2004 statutory filing.

All statutory requirements under the transition plan will be fully adopted by January 1, 2007. Prior to full implementation, however, the Company began accounting for the sale-leaseback transaction in accordance with SSAP No. 22, *Leases*, effective with the third quarter 2003 statutory filing. Adoption of SSAP No. 22 increased net income and statutory capital and surplus by \$6.8 million. Statutory capital and surplus at December 31, 2003 was \$1,898.1 million. The essential elements of the transition plan, as set forth in State Order No. 03-080M are as follows:

Bonds- The Company will continue to report the current portfolio (any security purchased on or before December 31, 2003) on a GAAP basis and any new securities purchased after December 31, 2003 will be reported in accordance with SAP. Approximately 33% of the Company’s portfolio will be valued on a SAP basis after year one, 66% after year 2 and 100% after year 3.

Investment in subsidiaries- The Company will use the current equity method and follow SAP in valuing the subsidiaries.

NOTES TO FINANCIAL STATEMENTS

The Company will have three years to record the statutory impact to surplus for investment in subsidiaries based on the following percentages: 1st year 25%, 2nd year 50%, 3rd year 75%.

Goodwill- The Company will apply SAP guidelines, however the percentage of surplus limitation will be as follows: 1st year 16%, 2nd year 14%, 3rd year 12%.

Regulatory asset- The Company will non-admit the balance based on the following percentages: 1st year 25%, 2nd year 50% 3rd year 75%.

Furniture, equipment and automobiles- The Company will non-admit balances in accordance with SSAP No. 19 and 20.

Retiree health obligation- The Company will discontinue reporting an obligation for non-vested employees. The statutory impact will be reported in the first year.

Retiree pension asset- The Company will non-admit the balance based on the following minimum percentages: 1st year 25% 2nd year 50% 3rd year 75%.

Prepaid expenses and other assets- The Company will non-admit balances in accordance with SAP.

The proforma impact to December 31, 2003 GAAP subscriber reserves under each year of the transition plan is disclosed below (in millions):

	2003 under Year 1	2003 under Year 2	2003 under Year 3	2003 under Year 4
GAAP Subscriber Reserves	\$ 1,891.3	\$ 1,891.3	\$ 1,891.3	\$ 1,891.3
Add (Deduct) Transition Plan Items				
Computer and software equipment included in the sale-leaseback	6.8	6.8	6.8	6.8
Bonds	(17.5)	(35.0)	(52.5)	(52.5)
Investment in Subsidiaries	(18.5)	(37.0)	(55.4)	(73.9)
Goodwill	-	(6.8)	(38.2)	(69.5)
Regulatory Asset	(28.1)	(56.1)	(84.3)	(112.4)
Furniture, equipment & automobiles	(10.3)	(10.3)	(10.3)	(10.3)
Computer and software equipment not included in the sale-leaseback	(51.3)	(51.3)	(51.3)	(51.3)
Retiree Health Obligation	114.1	114.1	114.1	114.1
Retiree Pension Asset	(27.8)	(55.6)	(83.3)	(111.1)
Prepaid Expenses and other assets	(41.4)	(41.4)	(41.4)	(41.4)
	(74.0)	(172.6)	(295.8)	(401.5)
 SAP Subscriber Reserves	 \$ 1,817.3	 \$ 1,718.7	 \$ 1,595.5	 \$ 1,489.8

3. ADMINISTRATIVE SERVICE CONTRACTS (ASC)

For Annual Statement purposes, the Company is reporting ASC business in conformity with Statement of Statutory Accounting Principles (SSAP) No. 47, Uninsured Plans. Presented below is the disclosure required by SSAP No. 47 for the administrator of plans. The gain from operations from ASC uninsured plans and the uninsured portion of partially insured plans (ASC plans with stop loss coverage) was as follows as of December 31, 2003:

	ASC Plans w/o Stop Loss	ASC Plans With Stop Loss	Total
Gross reimbursement for medical cost incurred	2,424,442,511	\$3,324,640,172	\$5,749,082,683
Gross administrative fees accrued	211,370,467	377,456,586	588,827,052
Subsidy transfer	(1,039,717)	(44,868,836)	(45,908,553)
Gross expenses incurred (claims and administrative)	2,630,110,026	3,605,810,983	6,235,921,009
Total net gain from operations	\$4,663,235	\$51,416,938	\$56,080,173

NOTES TO FINANCIAL STATEMENTS

4. COMBINED INSURED AND ASC FINANCIAL INFORMATION

	Insured	ASC	Total
Premiums fees and reimbursements	\$5,554,674,204	\$6,337,909,735	\$11,892,583,940
Claims incurred	4,784,056,750	5,749,082,683	10,533,139,436
Increase in A&H reserves	35,000,000		35,000,000
Administrative expenses	605,442,907	486,838,326	1,092,281,233
Total operating expenses	5,424,499,660	6,235,921,009	11,660,420,669
Senior cost transfer	45,908,553	(45,908,553)	-
Underwriting gain	\$176,083,098	\$56,080,173	\$232,163,272

5. SALE-LEASEBACK TRANSACTION

The Company entered into a sale and leaseback agreement with RBS Lombard (Lombard) on September 25, 2003. Under the transaction, the Company sold Lombard substantially all of its computer hardware and software at a net book value of approximately \$101 million and subsequently leased the assets back. No gain or loss was recorded on this transaction.

A second sale and leaseback transaction was entered into on November 25, 2003 under which the Company sold Lombard \$53.2 million of work-in-process capitalized software. No gain or loss was recorded on this transaction.

The initial lease terms are five years, and monthly lease payments are based on a ten-year amortization period with a balloon payment at the end of five years. In lieu of payment of the balance at the end of year five, the Company will have the option to enter into another lease for an additional five years.

As part of the financing agreement, the Company is required to maintain a letter of credit to collateralize the transaction. The current letter of credit is with Comerica Bank. The amount of the letter of credit is equal to 50 percent of the financed amount of the sale-leaseback transaction. The term of the letter of credit is for one year and will renew annually. At December 31, 2003, the value of the letter of credit was approximately \$77.1 million. Initial fees and closing costs, totaling approximately \$1.9 million incurred in connection with the sale-leaseback transactions have been expensed for statutory reporting purposes.

The sale-leaseback transaction has been accounted for under SSAP No. 22, which requires a sale of equipment that is accompanied by a leaseback of all or part of the equipment be accounted for as an operating lease. The rent expense incurred during 2003 related to the sale-leaseback transactions was \$4.1 million.

Future minimum lease payments as of December 31, 2003 in connection with the sale-leaseback transactions are as follows:

	Lease Payments
	Under Sale-
Year Ending	Leaseback
31-Dec	Agreement
2004	\$ 21,151,807
2005	21,151,807
2006	21,151,807
2007	21,151,807
2008 and thereafter	94,160,569

6. OTHER OPERATING LEASES

The Company leases computer equipment and office space under various non-cancelable operating leases. Rental expense was \$6,995,000 and \$10,041,000 December 31, 2003 and 2002 respectively. At December 31, 2003, future minimum lease payments are as follows:

NOTES TO FINANCIAL STATEMENTS

Year 2004	5,803,000
Year 2005	5,148,000
Year 2006	5,144,000
Year 2007	5,461,000
Year 2008	5,601,000
Total	<u>\$ 27,157,000</u>

7. RECONCILIATION TO GAAP BALANCES

The sale-leaseback transaction meets the criteria of a capital lease as set forth under SFAS 13, and is reflected as a capital lease for purposes of the Company’s GAAP financial statements. For GAAP purposes, the assets remain on the balance sheet and continue depreciating, and the Company established a liability for the sale-leaseback obligation. Due to this difference in accounting, the Company’s GAAP financial statements reflect different net income and surplus than the amounts included in the accompanying financial statements.

A reconciliation of GAAP to Statutory balances is provided below:

	December 31, 2003
GAAP net income	\$ 367,693,373
Depreciation expense on assets sold	11,339,826
Operating lease expenses	(4,062,959)
Sale-Leaseback transaction fees	(1,907,539)
Interest expense	1,434,694
Net income as reported on annual statement	<u>\$ 374,497,394</u>
GAAP surplus	\$ 1,891,319,257
Depreciation expense on assets sold	11,339,826
Operating lease expenses	(4,062,959)
Sale-Leaseback transaction fees	(1,907,539)
Interest expense	1,434,694
Surplus as reported on annual statement	<u>1,898,123,279</u>

8. REGULATORY ASSET

The Company has recorded a regulatory asset of \$112,356,000 and \$223,779,000 at December 31, 2003 and 2002, respectively, for the recovery of costs associated with its Area Rated group line of business. These costs are considered a regulatory asset in accordance with SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation* , as amended by SFAS No. 144. The Company collected approximately \$111,400,000 and \$51,400,000 of the regulatory asset during 2003 and 2002, respectively. The Company recorded no impairment charge during 2003 and a \$30,000,000 impairment charge for the year ended December 31, 2002. The impairment charge represents the estimated portion of the regulatory asset for which the recovery period extends beyond a time frame believed by management to be probable.

BANK LINE OF CREDIT

In September 2002, the Company became a member of the Federal Home Loan Bank of Indianapolis („FHLBI“) when it purchased a prescribed percentage of FHLBI common stock. The Company’s investment in FHLBI common stock at December 31, 2003 and 2002 was \$6,290,300 and \$5,052,600, respectively. The Company’s investment in FHLBI common stock is reviewed annually and adjusted periodically to reflect at least one percent of the Company’s mortgage-backed portfolio at a given period of time. Membership in FHLBI entitles the Company to line of credit privileges. The Company entered into a one-year, renewable overdraft line of credit agreement with FHLBI. Under the line of credit agreement, the Company’s aggregate amount of outstanding advances at any one time is limited to \$100,000,000. Interest rates, averaging 1.53% for both 2002 and 2003 were calculated and accrued on outstanding advances on a daily basis. At December 31, 2003 and 2002, there were no outstanding advances relating to this line of credit. Interest on the FHLBI line of credit totaled \$46,370 and \$19,322 in 2003 and 2002, respectively.

RETIREMENT INCOME PLANS

Substantially all employees who meet certain requirements of age and length of service are covered by the Company’s defined benefit retirement income plans. Benefits paid to retirees are based on age at retirement, years of credited service and highest monthly average earnings over 60 consecutive months.

NOTES TO FINANCIAL STATEMENTS

Under the Company’s amended retirement account plan, each participant has an account balance to which interest credits and earnings credits are added. Interest will be credited quarterly based on the prior August one-year Treasury bill rate. Earnings credits of 6% to 10% are credited to participants’ account balances on a monthly basis and monthly 2% transition credits are made through 2008. Employees can elect to receive the lump sum value of their account balance or monthly payments at retirement or termination.

The following table sets forth the projected benefit obligation and funded status at the plan measurement date of September 30 and the accrued/(prepaid) pension expense at December 31 (in thousands):

	2003	2002
Actuarial present value of benefit obligations:		
Vested benefits	\$ 636,811	\$ 566,074
Nonvested benefits	<u>34,332</u>	<u>27,012</u>
Accumulated benefit obligation	671,143	593,086
Effect of estimated future pay increases	<u>79,843</u>	<u>69,605</u>
Projected benefit obligation	750,986	662,691
Plan assets at fair market value, principally government bonds, notes and corporate equity securities	<u>690,373</u>	<u>600,704</u>
Plan assets in excess of or (less than) projected benefit obligation	<u>\$ (60,613)</u>	<u>\$ (61,987)</u>
Prepaid pension expense included in other assets and pension/postretirement liabilities in 2003 and 2002, respectively	<u>\$ 111,099</u>	<u>\$ 99,935</u>

The discount rate used in determining the actuarial present value of the projected benefit obligation was 6.50% at December 31, 2003 and 7.25% at December 31, 2002. Assumed rates of increase in future compensation range from 5.53% to 2.98% at December 31, 2003 and 2002, depending on the ages of the participants. The expected long-term rate of return on assets was 9.50% at December 31, 2003 and 2002.

The following table sets forth the benefit costs, employee contributions and benefits paid of the plans at December 31, (in thousands):

	2003	2002
Net periodic pension (income) cost	\$ (2,375)	\$ (4,123)
Employer contributions	9,050	86,572
Benefits paid	35,718	35,952

11. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Corporation provides certain health care and selected other benefits to all employees and their dependents. Represented and nonrepresented employees who have at least ten years of service after age 45 and retire from active employment or who become disabled and meet certain benefit and service requirements are eligible.

This benefit is subject to revision at the discretion of the Board of Directors for nonrepresented employees and for represented employees, subject to collective bargaining agreements. These plans are noncontributory plans.

Certain revisions to the nonrepresented employees’ postretirement benefits other than pensions will take effect January 1, 2004. Nonrepresented employees retiring after December 31, 2003 may share in the cost of their health care premiums and have higher deductibles and co-payments depending on their eligibility status at December 31, 2003. Additionally, nonrepresented employees hired on or after January 1, 2004 are required to have fifteen years of service after age 45 to be eligible for retiree health care benefits and selected other benefits.

The Corporation’s postretirement health care plan is unfunded. The accumulated obligation for employee postretirement benefits attributable to active and retired employees at the September 30 measurement date and other relevant information at December 31 is as follows (in thousands):

NOTES TO FINANCIAL STATEMENTS

	2003	2002
Accumulated postretirement benefit obligation:		
Retirees and dependents	\$ 165,732	\$ 141,357
Eligible active participants	85,597	78,676
Actives not yet eligible	<u>148,746</u>	<u>110,138</u>
Accrued postretirement obligation	400,075	330,171
Unrecognized accumulated net gain (loss)	(105,050)	(56,165)
Unrecognized prior service cost	<u>19,035</u>	<u>4,778</u>
Accrued postretirement benefit liability included in accrued expenses	<u>\$ 314,060</u>	<u>\$ 278,784</u>
Accrued postretirement expense included in other liabilities	\$ 314,061	\$ 278,784
Net periodic postretirement cost	\$ 47,668	\$ 40,790
Benefits paid	\$ 12,392	\$ 11,229

For 2003, the health care trend rate on covered benefits is assumed to be 9.33% in 2004, ratably downgrading to 4.75% by 2008 and all years thereafter.

For 2002, the health care trend rate on covered benefits is assumed to be 10.25% in 2003, ratably downgrading to 5.50% by 2008 and all years thereafter.

The discount rate used in determining the actuarial present value of the accumulated postretirement obligation was 6.50% at September 30, 2003 and 6.50% at September 30, 2002.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("Act") was signed into law. The Act provides a prescription drug benefit under Medicare ("Medicare Part D") as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least equivalent to the Medicare Part D benefit. The ultimate financial impact that this new law will have on the Corporation's retiree health plan obligation is not yet known due to the fact that at this time specific authoritative guidance on the accounting for the federal subsidy is pending and when issued could require the Corporation to change previously reported information. Under the provisions of FASB Staff Position ("FSP") FAS 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, the Corporation has elected to defer recognition of the financial statement impact until authoritative guidance is issued.

12. SALVAGE AND SUBROGATION

Anticipated Salvage and Subrogation included as a reduction to Claims Unpaid as reported on line 1, page 3 is as follows (in thousands):

Health Insurance Lines of Business	2003	2002
1996 Accident Year	-	2,463
1997 Accident Year	-	2,567
1998 Accident Year	368	5,846
1999 Accident Year	1,139	15,967
2000 Accident Year	4,149	54,281
2001 Accident Year	20,855	319,777
2002 Accident Year	154,073	1,323,472
2003 Accident Year	1,136,547	

13. FEDERAL INCOME TAXES

The Company files a consolidated federal income tax return with The Accident Fund Insurance Company of America and PPOM, LLC. PPOM, LLC is organized as a sole member limited liability company, and has elected to be treated as a division of the Company for federal tax purposes.

Income taxes are allocated between the companies in accordance with written agreements which have been approved by the Board of Directors. Allocation is based upon separate return calculations. Inter-company tax balances are settled

NOTES TO FINANCIAL STATEMENTS

annually in the first quarter.

BCBSM’s HMO affiliates are exempt from federal income tax under 501 (C) (4) of the Internal Revenue Code.

14. SUBSCRIBERS’ RESERVES

Under the provisions of Public Act 59 of 2003 ("Act 59") of the State of Michigan, the Company must maintain adequate subscriber reserves to comply with Section 403 of the Michigan Insurance Code, which requires authorized insurers to be safe, reliable and entitled to public confidence. As a result, the Company is required to file with OFIS, on an annual basis, its health risk-based capital ("HRBC") calculation based on the National Association of Insurance Commissioners ("NAIC") model. Act 59 requires the Corporation to maintain a HRBC ratio of at least 200 percent but not to exceed 1,000 percent of subscriber reserves. At December 31, 2003, the Corporation’s estimated HRBC ratio, which was calculated based on the NAIC model, is 633%.

Prior to July 2003, the Company was required to maintain subscribers’ reserves at a target level established in cooperation with the OFIS. The Company’s established target was a function of the Company’s underwritten and self-funded benefits provided and operating expenses, applied to certain risk factors as determined by the OFIS. The Company was required to maintain subscribers’ reserves at 105% to 150% of the calculated target. The Company was within the permitted target range for 2002 and 2001.

15. SURPLUS DEBENTURES

None

16. MEDICARE SUPPLEMENTAL EXPERIENCE EXHIBIT

Data represent 2002 experience and are not available based on policy issue dates.

17. CONTINGENCIES

The Company has been included as a defendant in two national class action lawsuits filed against the Blue Cross Blue Shield Association and several Blue Cross Blue Shield Plans, alleging unfair pricing of medical claims for a multiple year period. As both lawsuits are in the early stages of development, it is not yet possible to make an assessment regarding the probability of an adverse outcome, nor an estimate of the potential range of loss. The Company believes it has meritorious defenses against both lawsuits and intends to defend the actions vigorously.

In addition, the Corporation is the defendant in numerous other lawsuits arising in the normal course of business. While the ultimate outcome cannot be determined at this time, it is the opinion of management and outside counsel, that the outcome of such lawsuits will not have a material adverse effect on the Corporation’s consolidated financial position or results of operations.

Under the terms of self-funded administrative service contracts with its customers, the Company is subject to audits of claims processed by the Company as well as those processed by its related participating plans in other states. Such audits encompass the accuracy of claims payments made on behalf of customers and the administrative expenses charged to the customer. The Company records an estimated amount for the resolution of customer disputes. Settlements of such disputes are not expected to have a material effect on the Corporation’s consolidated financial position or results of operations.

BLUE CROSS BLUE SHIELD OF MICHIGAN
SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities.....	256,745,920	7.9	256,745,920	7.9
1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies.....	1,061,308,986	32.6	1,061,308,986	32.6
1.22 Issued by U.S. government sponsored agencies.....		0.0		0.0
1.3 Foreign government (including Canada, excluding mortgage-backed securities).....	650,000	0.0	650,000	0.0
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations.....		0.0		0.0
1.42 Political subdivisions of states, territories & possessions & political subdivisions general obligations...		0.0		0.0
1.43 Revenue and assessment obligations.....		0.0		0.0
1.44 Industrial development and similar obligations.....	562,895,584	17.3	562,895,584	17.3
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Guaranteed by GNMA.....		0.0		0.0
1.512 Issued by FNMA and FHLMC.....		0.0		0.0
1.513 Privately issued.....		0.0		0.0
1.52 CMOs and REMICs:				
1.521 Issued by FNMA and FHLMC.....		0.0		0.0
1.522 Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA or FHLMC.....		0.0		0.0
1.523 All other privately issued.....		0.0		0.0
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO).....		0.0		0.0
2.2 Unaffiliated foreign securities.....		0.0		0.0
2.3 Affiliated securities.....		0.0		0.0
3. Equity interests:				
3.1 Investments in mutual funds.....		0.0		0.0
3.2 Preferred stocks:				
3.21 Affiliated.....		0.0		0.0
3.22 Unaffiliated.....		0.0		0.0
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated.....		0.0		0.0
3.32 Unaffiliated.....	104,767,654	3.2	104,767,654	3.2
3.4 Other equity securities:				
3.41 Affiliated.....	695,666,322	21.4	695,666,322	21.4
3.42 Unaffiliated.....		0.0		0.0
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated.....		0.0		0.0
3.52 Unaffiliated.....		0.0		0.0
4. Mortgage loans:				
4.1 Construction and land development.....		0.0		0.0
4.2 Agricultural.....		0.0		0.0
4.3 Single family residential properties.....		0.0		0.0
4.4 Multifamily residential properties.....		0.0		0.0
4.5 Commercial loans.....		0.0		0.0
4.6 Mezzanine real estate loans.....		0.0		0.0
5. Real estate investments:				
5.1 Property occupied by company.....	194,914,444	6.0	194,914,444	6.0
5.2 Property held for production of income (includes \$.....0 of property acquired in satisfaction of debt).....		0.0		0.0
5.3 Property held for sale (\$.....0 including property acquired in satisfaction of debt).....		0.0		0.0
6. Policy loans.....		0.0		0.0
7. Receivables for securities.....		0.0		0.0
8. Cash and short-term investments.....	184,594,801	5.7	184,594,801	5.7
9. Other invested assets.....	191,571,086	5.9	191,571,086	5.9
10. Total invested assets.....	3,253,114,797	100.0	3,253,114,797	100.0

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

1.1

Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer?

Yes [X]

No []

1.2

If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations?

Yes [X]

No []

N/A []

1.3

State regulating?

Michigan

2.1

Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity?

Yes []

No [X]

2.2

If yes, date of change:
If not previously filed, furnish herewith a certified copy of the instrument as amended.

N/A

3.1

State as of what date the latest financial examination of the reporting entity was made or is being made.

09/30/2000

3.2

State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released.

09/30/2000

3.3

State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).

09/11/2001

3.4

By what department or departments?

Office of Financial and Insurance Services

4.1

During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under a common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.11

sales of new business?

Yes []

No [X]

4.12

renewals?

Yes []

No [X]

4.2

During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.21

sales of new business?

Yes []

No [X]

4.22

renewals?

Yes []

No [X]

5.1

Has the reporting entity been a party to a merger or consolidation during the period covered by this statement?

Yes []

No [X]

5.2

If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1	2	3
Name of Entity	NAIC Company Code	State of Domicile

6.1

Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? (You need not report an action, either formal or informal, if a confidentiality clause is part of the agreement.)

Yes []

No [X]

6.2

If yes, give full information:

7.1

Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity?

Yes []

No [X]

7.2

If yes,

7.21

State the percentage of foreign control.

.....%

7.22

State the nationality(ies) of the foreign person(s) or entity(ies); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(ies) (e.g., individual, corporation, government, manager or attorney-in-fact)

1	2
Nationality	Type of Entity

GENERAL INTERROGATORIES (continued)

- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board?
- Yes [☐]No [☒]
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms?
- Yes [☐]No [☒]
- 8.4 If response to 8.3 is yes, please provide the names and location (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC) and identify the affiliate's primary federal regulator].

1	2	3	4	5	6	7
Affiliate Name	Location (City, State)	FRB	OCC	OTS	FDIC	SEC

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?
- Deloitte & Touche, Suite 900, 600 Renaissance Center, Detroit, Michigan 48243-1704
-
10. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with a(n) actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?
- John Dunn ASA MAAA Director and Corporate Actuary
- Blue Cross Blue Shield of Michigan, 600 E. Lafayette, MC 1850, Detroit, Michigan 48226

11. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:
- 11.1 What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?
-
-
- 11.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located?
- Yes [☐]No [☐]
- 11.3 Have there been any changes made to any of the trust indentures during the year?
- Yes [☐]No [☐]
- 11.4 If answer to (11.3) is yes, has the domiciliary or entry state approved the changes?
- Yes [☐]No [☐]N/A [☐]

BOARD OF DIRECTORS

12. Is the purchase or sale of all investments of the reporting entity passed upon either by the Board of Directors or a subordinate committee thereof?
- Yes [☒]No [☐]
13. Does the reporting entity keep a complete permanent record of the proceedings of its Board of Directors and all subordinate committees thereof?
- Yes [☒]No [☐]
14. Has the reporting entity an established procedure for disclosure to its Board of Directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees which is in or is likely to conflict with the official duties of such person?
- Yes [☒]No [☐]

FINANCIAL

- 15.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
- 15.11 To directors or other officers.....0
- 15.12 To stockholders not officers.....0
- 15.13 Trustees, supreme or grand (Fraternal only).....0
- 15.2 Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):
- 15.21 To directors or other officers.....0
- 15.22 To stockholders not officers.....0
- 15.23 Trustees, supreme or grand (Fraternal only).....0
- 16.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement?
- Yes [☐]No [☒]
- 16.2 If yes, state the amount thereof at December 31 of the current year:
- 16.21 Rented from others.....0
- 16.22 Borrowed from others.....0
- 16.23 Leased from others.....0
- 16.24 Other.....0
- Disclose in the Notes to Financial the nature of each obligation.
- 17.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments?
- Yes [☐]No [☒]
- 17.2 If answer is yes:
- 17.21 Amount paid as losses or risk adjustment.....0
- 17.22 Amount paid as expenses.....0
- 17.23 Other amounts paid.....0

GENERAL INTERROGATORIES (continued)

INVESTMENT

18. List the following capital stock information for the reporting entity:

Class	1 Number of Shares Authorized	2 Number of Shares Outstanding	3 Par Value Per Share	4 Redemption Price If Callable	5 Is Dividend Rate Limited?	6 Are Dividends Cumulative?
Preferred.....	.....N/A	.....N/A	.....N/A	.....N/A	...Yes [].....No [].....	...Yes []....No [].....
Common.....	.....N/A	.....N/A	.....N/A	.....XXX.....	.....XXX.....XXX.....	.....XXX.....XXX...

19.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date, except as shown by Schedule E-Part 3-Special Deposits? Yes [] No [X]

19.2 If no, give full and complete information relating thereto.
Certain securities are loaned subject to a securities lending agreement with State Street Bank

20.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, except as shown on Schedule E-Part 3-Special Deposits, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 16.1) Yes [] No [X]

20.2 If yes, state the amount thereof at December 31 of the current year:

20.21 Loaned to others

20.22 Subject to repurchase agreements

20.23 Subject to reverse repurchase agreements

20.24 Subject to dollar repurchase agreements

20.25 Subject to reverse dollar repurchase agreements

20.26 Pledged as collateral

20.27 Placed under option agreements

20.28 Letter stock or securities restricted as to sale

20.29 Other

.....0

.....0

.....0

.....0

.....0

.....0

.....0

.....0

.....0

20.3 For each category above, if any of these assets are held by others, identify by whom held:

20.31

20.32

20.33

20.34

20.35

20.36

20.37

20.38

20.39

For categories (20.21) and (20.23) above, and for any securities that were made available for use by another person during the period covered by this statement, attach a schedule as shown in the instructions to the annual statement.

20.4 For category (20.28) provide the following:

1 Nature of Restriction	2 Description	3 Amount

21.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes [] No [X]

21.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes [] No [] N/A [X]
If no, attach a description with this statement.

22.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? Yes [] No [X]

22.2 If yes, state the amount thereof at December 31 of the current year:0

BLUE CROSS BLUE SHIELD OF MICHIGAN
GENERAL INTERROGATORIES (continued)
INVESTMENT

23. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1-General, Section IV.H-Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes [X] No []

23.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian's Address
State Street Insurance Services	801 Pennsylvania, Kansas City, MO 64105
Federal Home Loan Bank of Indianapolis	8250 Woodfield Crossing, Indianapolis, IN 46240
Comerica Bank	Institutional Trust, P.O Box 75000, Detroit, MI 48275

23.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

23.03 Have there been any changes, including name changes, in the custodian(s) identified in 23.01 during the current year? Yes [X] No []

23.04 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason
State Street Bank	Comerica Bank	09/25/2003	Collateralized Letter of Credit

23.05 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	3 Address

24.1 Does the reporting entity have any diversified mutual funds reported in Schedule D, Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5(b)(1)])? Yes [X] No []

24.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
784924888	SSGA S&P 500 Index Fund	52,020,490
92290884	Vanguard Extended Market Index Fund	34,430,489
9999999. TOTAL		86,450,979

24.3 For each mutual fund listed in the table above, complete the following schedule:

1 Name of Mutual Fund (from the above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to Holding	4 Date of Valuation
SSGA S&P 500 Index Fund	General Electric	1,524,200	12/31/2003
Vanguard Extended Market Index Fund	Berkshire Hathaway	1,118,991	12/31/2003

BLUE CROSS BLUE SHIELD OF MICHIGAN
GENERAL INTERROGATORIES (continued)
OTHER

- 25.1 Amount of payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus, if any? \$.....5,725,437
- 25.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus during the period covered by this statement.

1 Name	2 Amount Paid
Blue Cross Blue Shield Association	5,725,437

- 26.1 Amount of payments for legal expenses, if any? \$.....2,380,909
- 26.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
Dickinson Wright	545,960

- 27.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? \$.....408,996
- 27.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1 Name	2 Amount Paid
N/A	

BLUE CROSS BLUE SHIELD OF MICHIGAN
GENERAL INTERROGATORIES (continued)

PART 2 - HEALTH INTERROGATORIES

1.1

Does the reporting entity have any direct Medicare Supplement Insurance in force?

Yes [X]

No []

1.2

If yes, indicate premium earned on U.S. business only

\$.....202,164,362

1.3

What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit?

\$.....0

1.31

Reason for excluding

1.4

Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above.

\$.....0

1.5

Indicate total incurred claims on all Medicare Supplement insurance.

\$.....289,001,789

1.6

Individual policies:

Most current three years:

1.61

Total premium earned

\$.....202,164,362

1.62

Total incurred claims

\$.....289,001,789

1.63

Number of covered lives

.....202,867

All years prior to most current three years:

1.64

Total premium earned

\$.....0

1.65

Total incurred claims

\$.....0

1.66

Number of covered lives

.....0

1.7

Group policies:

Most current three years:

1.71

Total premium earned

\$.....0

1.72

Total incurred claims

\$.....0

1.73

Number of covered lives

.....0

All years prior to most current three years:

1.74

Total premium earned

\$.....0

1.75

Total incurred claims

\$.....0

1.76

Number of covered lives

.....0

2.

Health test:

	1	2
	Current Year	Prior Year
2.1 Premium Numerator.....	.....5,597,458,033	.....5,384,723,476
2.2 Premium Denominator.....	.....5,597,458,033	.....5,384,723,476
2.3 Premium Ratio (2.1/2.2).....	.....100.0	.....100.0
2.4 Reserve Numerator.....	.....1,030,542,368	.....957,320,063
2.5 Reserve Denominator.....	.....1,052,220,845	.....965,316,750
2.6 Reserve Ratio (2.4/2.5).....	.....97.9	.....99.2

3.1

Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, as and if the earnings of the reporting entity permits?

Yes []

No [X]

3.2

If yes, give particulars:

4.1

Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and departments been filed with the appropriate regulatory agency?

Yes [X]

No []

4.2

If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered?

Yes [X]

No []

5.1

Does the reporting entity have stop-loss reinsurance?

Yes []

No [X]

5.2

If no, explain:

Blue Cross Blue Shield of Michigan does not utilize stop-loss reinsurance due to the size and stability of the business and sufficient levels of capitalization.

5.3

Maximum retained risk (see instructions):

5.31

Comprehensive medical

\$.....0

5.32

Medical only

\$.....0

5.33

Medicare supplement

\$.....0

5.34

Dental

\$.....0

5.35

Other limited benefit plan

\$.....0

5.36

Other

\$.....0

6.

Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:

Maintain a restricted custodial bank account determined on the basis of a formula set by BCBSA

7.1

Does the reporting entity set up its claim liability for provider services on a service data base?

Yes []

No [X]

7.2

If no, give details:

Claim liabilities are based on paid/incurred claims triangulation

8.

Provide the following information regarding participating providers:

8.1

Number of providers at start of reporting year

.....34,278

8.2

Number of providers at end of reporting year

.....35,967

9.1

Does the reporting entity have business subject to premium rate guarantees?

Yes [X]

No []

9.2

If yes, direct premium earned:

9.21

Business with the rate guarantees between 15-36 months

\$.....7,941,000

9.22

Business with rate guarantees over 36 months

\$.....0

BLUE CROSS BLUE SHIELD OF MICHIGAN
GENERAL INTERROGATORIES (continued)

PART 2 - HEALTH INTERROGATORIES (continued)

10.1

Does the reporting entity have Incentive Pool, Withhold and Bonus arrangements in its provider contracts?

Yes ☒ [X]

No ☐ []

10.2

If yes:

10.21

Maximum amount payable bonuses

\$.....0

10.22

Amount actually paid for year bonuses

\$.....0

10.23

Maximum amount payable withholds

\$.....0

10.24

Amount actually paid for year withholds

\$.....0

11.1

Is the reporting entity organized as:

11.12

A Medical Group/Staff Model,

Yes ☐ []

No ☒ [X]

11.13

An Individual Practice Association (IPA), or

Yes ☐ []

No ☒ [X]

11.14

A Mixed Model (combination of above)?

Yes ☐ []

No ☒ [X]

11.2

Is the reporting entity subject to Minimum Net Worth Requirements?

Yes ☐ []

No ☒ [X]

11.3

If yes, show the name of the state requiring such net worth.

11.4

If yes, show the amount required.

\$.....0

11.5

Is this amount included as part of a contingency reserve in stockholder's equity?

Yes ☐ []

No ☒ [X]

11.6

If the amount is calculated, show the calculation:

N/A

12. List service areas in which reporting entity is licensed to operate:

1
Name of Service Area
Michigan

BLUE CROSS BLUE SHIELD OF MICHIGAN
FIVE-YEAR HISTORICAL DATA

	1 2003	2 2002	3 2001	4 2000	5 1999
Balance Sheet Items (Pages 2 and 3)					
1. Total admitted assets (Page 2, Line 26).....	4,256,344,275	3,823,581,501	3,123,075,925	3,529,241,400	3,473,274,495
2. Total liabilities (Page 3, Line 22).....	2,358,220,996	2,291,231,819	1,822,506,925	2,282,071,919	2,359,193,025
3. Statutory surplus.....	1,898,123,279	1,532,349,682	1,300,569,000	992,093,076	874,667,552
4. Total capital and surplus (Page 3, Line 30).....	1,898,123,279	1,532,349,682	1,300,569,000	1,247,219,481	1,114,081,470
Income Statement Items (Page 4)					
5. Total revenues (Line 8).....	5,554,674,204	5,287,341,438	4,874,622,864	8,974,685,006	8,209,729,858
6. Total medical and hospital expenses (Line 18).....	4,784,056,750	4,603,132,705	4,382,989,985	8,197,384,666	7,498,389,337
7. Total administrative expenses (Line 21).....	362,475,685	455,198,242	369,505,007	535,497,247	675,401,624
8. Net underwriting gain (loss) (Line 24).....	232,163,272	85,733,879	(12,763,542)	(8,814,763)	35,938,897
9. Net investment gain (loss) (Line 27).....	91,865,207	85,222,156	95,627,883	102,235,576	145,333,878
10. Total other income (Lines 28 plus 29).....	118,792,295	37,774,108	(18,999,569)	(20,717,695)	(76,049,886)
11. Net income or (loss) (Line 32).....	374,497,394	161,382,896	56,161,250	65,425,441	89,061,513
Risk-Based Capital Analysis					
12. Total adjusted capital.....	1,898,123,279	1,532,349,682	1,300,569,000	1,247,219,481	1,114,081,470
13. Authorized control level risk-based capital.....	299,806,439	267,570,296	263,837,065	214,127,834	176,197,604
Enrollment (Exhibit 2)					
14. Total members at end of period (Column 5, Line 7).....	2,698,830	2,659,983	2,648,278		
15. Total member months (Column 6, Line 7).....	35,468,309	32,511,278	31,795,355		
Operating Percentage (Page 4) (Item divided by Page 4, sum of Lines 2, 3, and 5)					
16. Premiums earned (Lines 2 plus 3).....	100.0	100.0	100.0	100.0	100.0
17. Total hospital and medical (Line 18).....	86.1	87.1	89.8	91.3	91.3
18. Total underwriting deductions (Line 23).....	95.8	98.4	100.1	8.8	8.2
19. Total underwriting gain (loss) (Line 24).....	4.2	1.6	(0.3)	(0.1)	0.5
Unpaid Claims Analysis (U&I Exhibit, Part 2B)					
20. Total claims incurred for prior years (Line 12, Col. 5).....	518,953,914	533,853,556	728,002,716	1,061,045,393	978,116,075
21. Estimated liability of unpaid claims - [prior year (Line 12, Col. 6)]	567,360,979	637,430,199	1,201,642,568	1,084,990,954	978,740,072
Investments in Parent, Subsidiaries and Affiliates					
22. Affiliated bonds (Sch. D Summary, Line 25, Col. 1).....					
23. Affiliated preferred stocks (Sch D. Summary, Line 39, Col. 1).....					
24. Affiliated common stocks (Sch D. Summary, Line 53, Col. 2).....	695,666,322	593,825,933	510,210,515	544,178,721	521,930,019
25. Affiliated short-term investments (subtotal included in Sch. DA, Part 2, Col. 5, Line 11).....					
26. Affiliated mortgage loans on real estate.....					
27. All other affiliated.....					
28. Total of above Lines 22 to 27.....	695,666,322	593,825,933	510,210,515	544,178,721	521,930,019

SCHEDULE D - SUMMARY BY COUNTRY

Long-Term Bonds and Stocks OWNED December 31 of Current Year

Description		1 Book/Adjusted Carrying Value	2 Fair Value (a)	3 Actual Cost	4 Par Value of Bonds
BONDS Governments (Including all obligations guaranteed by governments)	1. United States.....	256,745,920	256,745,920	245,326,729	232,968,000
	2. Canada.....				
	3. Other Countries.....	650,000	650,000	650,000	650,000
	4. Totals.....	257,395,920	257,395,920	245,976,729	233,618,000
States, Territories and Possessions (Direct and guaranteed)	5. United States.....				
	6. Canada.....				
	7. Other Countries.....				
	8. Totals.....	0	0	0	0
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	9. United States.....				
	10. Canada.....				
	11. Other Countries.....				
	12. Totals.....	0	0	0	0
Special Revenue and Special Assessment Obligations and all Non-guaranteed Obligations of Agencies and Authorities of Governments and their Political Subdivisions	13. United States.....	1,061,308,986	1,061,308,986	1,043,477,812	1,027,563,310
	14. Canada.....				
	15. Other Countries.....				
	16. Totals.....	1,061,308,986	1,061,308,986	1,043,477,812	1,027,563,310
Public Utilities (unaffiliated)	17. United States.....				
	18. Canada.....				
	19. Other Countries.....				
	20. Totals.....	0	0	0	0
Industrial and Miscellaneous and Credit Tenant Loans (Unaffiliated)	21. United States.....	562,895,584	562,895,584	539,903,855	541,000,000
	22. Canada.....				
	23. Other Countries.....				
	24. Totals.....	562,895,584	562,895,584	539,903,855	541,000,000
Parent, Subsidiaries and Affiliates	25. Totals.....				
	26. Total Bonds.....	1,881,600,490	1,881,600,490	1,829,358,396	1,802,181,310
PREFERRED STOCKS Public Utilities (Unaffiliated)	27. United States.....				
	28. Canada.....				
	29. Other Countries.....				
	30. Totals.....	0	0	0	
Banks, Trust and Insurance Companies (Unaffiliated)	31. United States.....				
	32. Canada.....				
	33. Other Countries.....				
	34. Totals.....	0	0	0	
Industrial and Miscellaneous (Unaffiliated)	35. United States.....				
	36. Canada.....				
	37. Other Countries.....				
	38. Totals.....	0	0	0	
Parent, Subsidiaries and Affiliates	39. Totals.....				
	40. Total Preferred Stocks....	0	0	0	
COMMON STOCKS Public Utilities (Unaffiliated)	41. United States.....				
	42. Canada.....				
	43. Other Countries.....				
	44. Totals.....	0	0	0	
Banks, Trust and Insurance Companies (Unaffiliated)	45. United States.....				
	46. Canada.....				
	47. Other Countries.....				
	48. Totals.....	0	0	0	
Industrial and Miscellaneous (Unaffiliated)	49. United States.....	104,767,655	104,767,654	96,629,980	
	50. Canada.....				
	51. Other Countries.....				
	52. Totals.....	104,767,655	104,767,654	96,629,980	
Parent, Subsidiaries and Affiliates	53. Totals.....	695,666,322	695,666,322	304,301,314	
	54. Total Common Stocks.....	800,433,977	800,433,976	400,931,294	
	55. Total Stocks.....	800,433,977	800,433,976	400,931,294	
	56. Total Bonds and Stocks...	2,682,034,467	2,682,034,466	2,230,289,690	

(a) The aggregate value of bonds which are valued at other than actual fair value is \$.....0.

SCHEDULE D - VERIFICATION BETWEEN YEARS

1. Book/adjusted carrying value of bonds and stocks, prior year.....	2,071,841,035	6. Foreign exchange adjustment:	
2. Cost of bonds and stocks acquired, Column 6, Part 3.....	4,089,209,486	6.1 Column 17, Part 1.....	
3. Increase (decrease) by adjustment:		6.2 Column 13, Part 2, Section 1.....	
3.1 Column 16, Part 1.....	(1,487,984)	6.3 Column 11, Part 2, Section 2.....	
3.2 Column 12, Part 2, Section 1.....		6.4 Column 11, Part 4.....	0
3.3 Column 10, Part 2, Section 2.....	101,843,000	7. Book/adjusted carrying value at end of current period.....	2,690,106,045
3.4 Column 10, Part 4.....	(3,987,604)	8. Total valuation allowance.....	(8,071,578)
4. Total gain (loss), Column 14, Part 4.....	16,279,826	9. Subtotal (Lines 7 plus 8).....	2,682,034,467
5. Deduct consideration for bonds and stocks disposed of, Column 6, Part 4...	3,583,591,714	10. Total nonadmitted amounts.....	
		11. Statement value of bonds and stocks, current period.....	2,682,034,467

BLUE CROSS BLUE SHIELD OF MICHIGAN
SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

		1	2	Direct Business Only					
		Guaranty Fund (YES or NO)	Is Insurer Licensed? (YES or NO)	3	4	5	6	7	8
State, Etc.				Accident & Health Premiums	Medicare Title XVIII	Medicaid Title XIX	Federal Employees Health Benefits Program Premiums	Life & Annuity Premiums and Deposit-Type Contract Funds	Property/ Casualty Premiums
1.	Alabama.....AL	...NO	...NO						
2.	Alaska.....AK	...NO	...NO						
3.	Arizona.....AZ	...NO	...NO						
4.	Arkansas.....AR	...NO	...NO						
5.	California.....CA	...NO	...NO						
6.	Colorado.....CO	...NO	...NO						
7.	Connecticut.....CT	...NO	...NO						
8.	Delaware.....DE	...NO	...NO						
9.	District of Columbia.....DC	...NO	...NO						
10.	Florida.....FL	...NO	...NO						
11.	Georgia.....GA	...NO	...NO						
12.	Hawaii.....HI	...NO	...NO						
13.	Idaho.....ID	...NO	...NO						
14.	Illinois.....IL	...NO	...NO						
15.	Indiana.....IN	...NO	...NO						
16.	Iowa.....IA	...NO	...NO						
17.	Kansas.....KS	...NO	...NO						
18.	Kentucky.....KY	...NO	...NO						
19.	Louisiana.....LA	...NO	...NO						
20.	Maine.....ME	...NO	...NO						
21.	Maryland.....MD	...NO	...NO						
22.	Massachusetts.....MA	...NO	...NO						
23.	Michigan.....MI	...NO	YES	5,403,332,174			194,125,859		
24.	Minnesota.....MN	...NO	...NO						
25.	Mississippi.....MS	...NO	...NO						
26.	Missouri.....MO	...NO	...NO						
27.	Montana.....MT	...NO	...NO						
28.	Nebraska.....NE	...NO	...NO						
29.	Nevada.....NV	...NO	...NO						
30.	New Hampshire.....NH	...NO	...NO						
31.	New Jersey.....NJ	...NO	...NO						
32.	New Mexico.....NM	...NO	...NO						
33.	New York.....NY	...NO	...NO						
34.	North Carolina.....NC	...NO	...NO						
35.	North Dakota.....ND	...NO	...NO						
36.	Ohio.....OH	...NO	...NO						
37.	Oklahoma.....OK	...NO	...NO						
38.	Oregon.....OR	...NO	...NO						
39.	Pennsylvania.....PA	...NO	...NO						
40.	Rhode Island.....RI	...NO	...NO						
41.	South Carolina.....SC	...NO	...NO						
42.	South Dakota.....SD	...NO	...NO						
43.	Tennessee.....TN	...NO	...NO						
44.	Texas.....TX	...NO	...NO						
45.	Utah.....UT	...NO	...NO						
46.	Vermont.....VT	...NO	...NO						
47.	Virginia.....VA	...NO	...NO						
48.	Washington.....WA	...NO	...NO						
49.	West Virginia.....WV	...NO	...NO						
50.	Wisconsin.....WI	...NO	...NO						
51.	Wyoming.....WY	...NO	...NO						
52.	American Samoa.....AS	...NO	...NO						
53.	Guam.....GU	...NO	...NO						
54.	Puerto Rico.....PR	...NO	...NO						
55.	U.S. Virgin Islands.....VI	...NO	...NO						
56.	Canada.....CN	...NO	...NO						
57.	Aggregate Other alien.....OT	...XXX	...XXX	0	0	0	0	0	0
58.	Total (Direct Business).....	...XXX	(a).....1	5,403,332,174	0	0	194,125,859	0	0

DETAILS OF WRITE-INS						
5701.	.....				
5702.	.....				
5703.	.....				
5798.	Summary of remaining write-ins for line 57 from overflow page.....	0	0	0	0	0
5799.	Total (Lines 5701 thru 5703 plus 5798) (Line 57 above).....	0	0	0	0	0

Explanation of basis of allocation by states, premiums by state, etc.

(a) Insert the number of yes responses except for Canada and Other Alien.

SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 – ORGANIZATIONAL CHART



A nonprofit corporation and independent licensee
of the Blue Cross and Blue Shield Association

SUBSIDIARY & AFFILIATE ORGANIZATION CHART

